Kelly, Douglas & Company, Limited 1971 Annual Report

AR10

Gold medal winners for excellence of quality, Brussels, 1971

KELLY, DOUGLAS & COMPANY, LIMITED ANNUAL REPORT 1971

OFFICERS

V. F. MacLEAN, President and Chief Executive Officer

J. BAIRD, Senior Vice-President, Wholesale-Retail Operations

J. L. DAMPIER, Vice-President, Nabob Foods Operations

C. M. HUMPHRYS, C.A., Vice-President, Secretary-Treasurer

D. G. GIBBS, C.G.A., Controller

DIRECTORS

J. BAIRD

G. E. CREBER, Q.C.

J. L. DAMPIER

F. MILDRED DOUGLAS*

J. L. FARRIS, Q.C.

C. M. HUMPHRYS, C.A.

J. H. KINNE

V. F. MacLEAN

A. H. PINKHAM, C.A.

*J. T. FRASER, *Alternate Director and member of Policy and Administrative Committee*

TRANSFER AGENTS

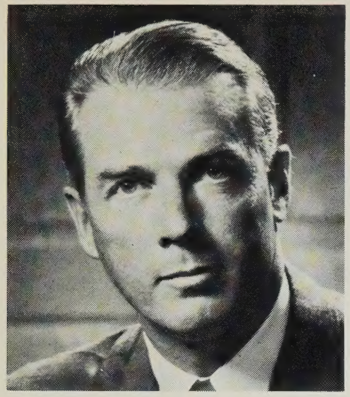
NATIONAL TRUST COMPANY, LIMITED

REGISTERED HEAD OFFICE

4700 KINGSWAY, BURNABY, B.C.

ANNUAL MEETING

11 am, P.D.T., May 9, 1972
Kelly, Douglas & Company, Limited, Board Room,
4700 Kingsway, Burnaby, B.C.



VICTOR F. MacLEAN
President

REPORT OF THE PRESIDENT

It is particularly gratifying to report to you on the Company's 1971 financial position, because it has been one of the most successful years in our history.

Total Company sales in 1971 increased by 9.4% over the previous year, to an all-time high of $249,000,000, exclusive of inter-company sales.

Every division of the operation contributed to this growth. Our new ventures especially have justified the investment placed in them.

Operating profits for the year reached the highest level in the Company's history. Net profit after taxes, for all divisions, was $2,485,594. This figure represents an excellent improvement of 43% over the previous year.

This desirable position largely reflects the marked impetus of sales activity which began at the second quarter of the year. A more buoyant situation in all our operations was sustained throughout the remainder of the year, as the general economy of the country gained health and as interest rates were lowered.

Inflation, however, is not being contained. Increases in productive output are not being generated to offset the level of wage increases which are being granted. The result has meant more unemployment supported by government subsidy in some form, which in turn must be paid for by increased taxation.

Business generally is blamed to the same extent as labour for fanning the fires of inflation with increased prices. It has been an unfortunate tradition in the food industry, however, that the return on sales of less than 1% is extremely modest. And virtually every industry today is experiencing a decline in the rate of return on invested capital.

The business viewpoint in 1971 was characterized by a growing concern for future opportunities of expansion in what is still referred to as a free economy. We are faced with a proliferation of government control. We have seen measures and entanglements introduced by government departments which constrict and slow the normal activity of business.

The concern is made even more profound when business appears to have no voice in government. It is apparent that many of the judgments that are being made against business by political forces have been prepared by technicians, few of whom have had any contact or contest in business dynamics. The anxiety of business is not relieved by the government's shuffling of cabinet ministers from one shadow to another as an ultimate solution to the aforementioned problems.

One of our most difficult challenges is getting interested and enthusiastic new people in our employ. Here again, we see the destructive influence of welfare state policies, which erode and alienate the attitude of potential employees towards productive endeavour. As well, there is a continuing pressure of influence from mass media, who too often paint business as the evil of today's society. In fact it is the entrepreneurial energy and endeavour of business that maximizes the opportunity for expanded employment and affluence and provides a better community life for all.

Growth is our formula and we must grow with people. Kelly, Douglas now employs 4,500 people in its diversified operations. This is 3,000 more jobs than our Company provided in 1960. These people of Kelly, Douglas are the success of our Company and we acknowledge their heavy contribution at the close of another year.

The confidence that shareholders have placed in our Company reinforces our efforts for continued growth. Every possibility for expansion into new, related or complementary areas, where profits can be generated is always in mind and under review.

To the Board of Directors, whose efforts have been diligent and tireless, may I express our appreciation for the manifest concern they have shown in the Company's affairs.

Victor F. MacLean, *President*.

NABOB FOODS

The efforts of our Nabob Manufacturing Division have been rewarded by an increase in sales and profits over the previous year. Growth was real, rather than inflationary, in the sense that commodity prices generally had few increases. Our strong position in this division is a tribute to Nabob's excellent marketing organization.

Sales of products carrying the Nabob brand name accounted for the major improvements. Our constant emphasis on consistent high quality contributed heavily to the growth of our ground coffee share of market. This product retains its strength as the largest selling brand of ground coffee in Canada.

A variety of new food products continue to add sales growth in the Manufacturing Division and certainly justify the research and development applied to them.

Squirrel Peanut Butter maintained its position as the leading brand sold in the four western provinces.

Commodity costs are a major factor in Nabob's operating success. While minor reductions occurred in some items, the rise in the cost of sugar, for example, contributed to a cost-price squeeze on many items like jam, fruit crystals and jelly powder. The overall outlook for Nabob in 1972 is one of continued growth.

WHOLESALE DIVISION

1971 marked a year of expansion in our Wholesale Division. Sales were up 8% over 1970 and operating profits exceeded both the previous year and projections.

New branch facilities were commenced during the year at Cranbrook and in the rapidly growing Prince George area. These branch operations, replacing outmoded premises, comprise 110,000 square feet and will distribute groceries, produce and frozen foods. Our branch operations are now geared for terminal units enabling each branch to utilize computer advantages to increase speed, efficiency and consumer convenience.

We are confident of steady improvement in our Wholesale Division in the coming year.

RETAIL DIVISION

The Super-Valu chain experienced steady growth in 1971, although competition was intense. Sales expanded to bring the chain an improved share of the British Columbia market.

Super-Valu has a total of 83 stores throughout the province. Fifty are corporate operations. Thirty-three are owned and operated by British Columbia merchants. During the year we closed five stores, remodelled several and opened five new outlets, all in major shopping areas in fast-growing communities.

Three new stores are planned for the first half of 1972, again, all situated in large shopping centre complexes: Whitehorse, Guildford, and Surrey Place. Further additions and extensive remodelling will occur in the latter half of the year.

Super-Valu's image is one of top quality plus a strong emphasis on freshness in perishable departments; on-the-premise baked goods, hot take home foods, customer restaurant service. Our stores offer large general merchandise departments, the latest in new products and convenience items for the home.

METEOR MEATS

Expanded facilities and our successful catering operations were responsible for a substantial increase in volume and a proportionate increase in profits in our block-ready meat division. High standards of quality control were maintained with this increased volume.

CATERING DIVISION

Catering is a bell-weather of our Company as it is the first division to notice signs of economic recovery, through growth patterns of new industry.

While adverse weather had some effect on our Cal-Van Canus operation, 1971 proved a stronger year than the one previous. Costs of services, supplies and labour remain tough task-masters on profit. New contract opportunities for 1972 appear excellent. The only concern will be the possibility of delays from contract settlements of the general construction trades and the forest industry.

FOREMOST FOODS

It's a pleasure to report on the activity of this new division, which began production in the latter part of 1970.

We have been able to recover some expected opening losses and also to correct early operating problems. Sales for 1971 have exceeded our expectations and Foremost produced a profit. The Division offers a wide variety of products — fresh milk and cream, 27 lines of ice cream, cottage cheese and recently introduced 10 new flavours of yogurt.

Foremost now enjoys excellent acceptance as a top quality brand. Its program is geared totally for retail stores and the outlook is for further penetration of both our own corporate and affiliated stores.

WESTERN COMMODITIES

Western Commodities continues to grow and expand sales and profits. The forecast for the year ahead is excellent for this general merchandise importing brokerage division.

CLOVERDALE AND MONARCH PAINTS

Inclement weather, as well as a slow moving economy affected our Paint Division and we suffered substantial declines in the first half of 1971.

By the end of the year, however, reasonable increases in both sales and profits were achieved. Four new branch outlets were opened during the year. The amount of profit these new stores can generate is affected by the balance between increased fixed costs of startup and the time required to develop supporting sales volume. Sometimes this takes three years.

The resurgence of the economy is providing a noticeable improvement in our overall sales in this division, although we are experiencing slight delays in receiving basic materials. Wax volume and sales of protective coatings and stains in the forest product area are up and with new personnel and a steady upgrading of standards, the forecast is for a successful year ahead.

FAIRVIEW FARMS

Our modern egg operation is showing steady improvement. Over-production in 1971 in most producing areas required additional promotional activity and had a depressing affect on profit margins. It is hoped that some stability in inter-provincial trade may develop from the Federal Government's approved framework for co-ordination of Provincial Marketing Boards.

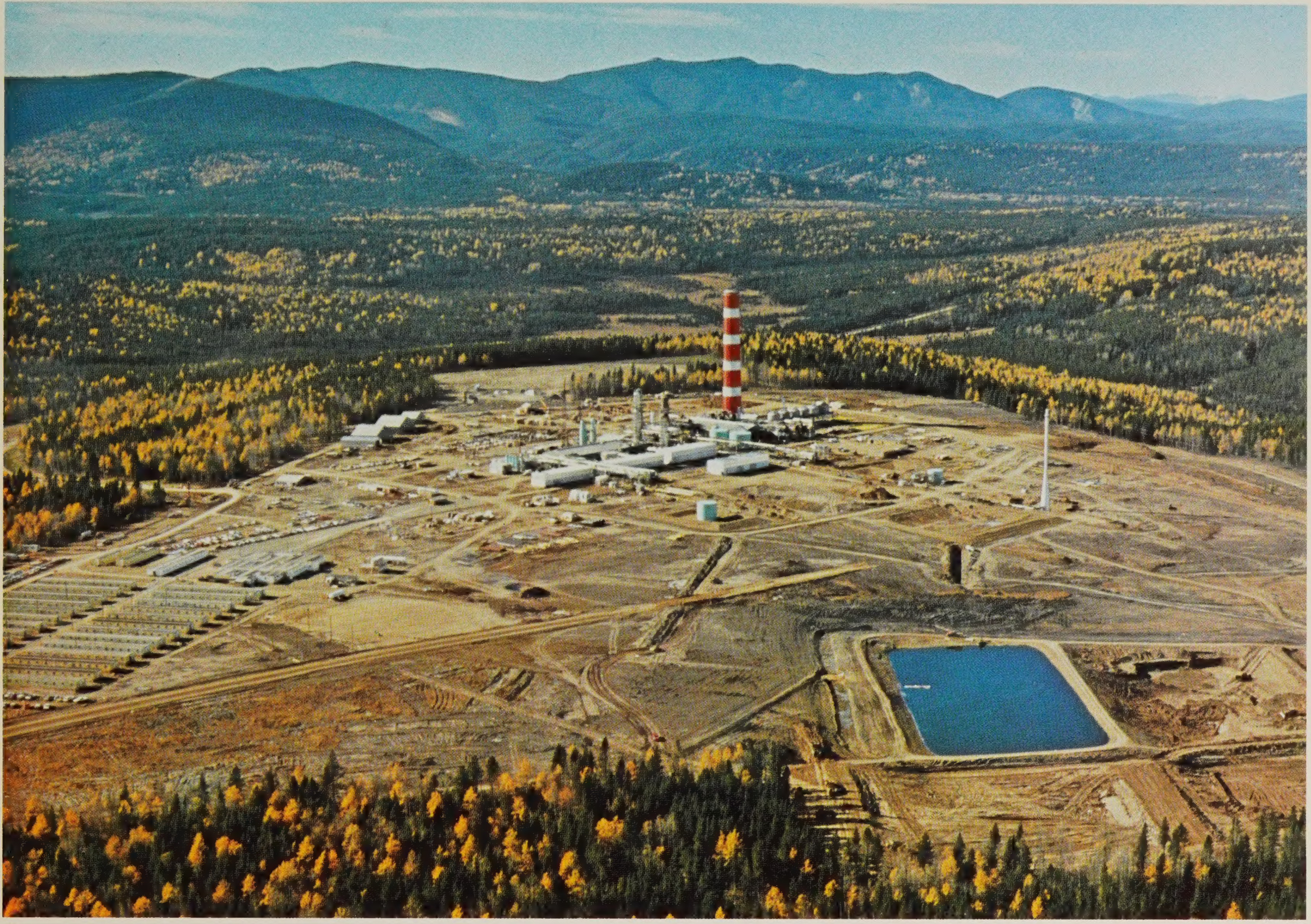
DICKSON'S IMPORTING

All nine branches in the four Western provinces improved their sales to restaurants and obtained a greater share of that market. Healthier profits were achieved from the rising sales volume in coffee, tea and allied products. Projections for 1972 are excellent and we are particularly optimistic about this division's contribution.

ISAACS PHARMACY

The Company operates a chain of 13 drug units throughout British Columbia. These Isaacs outlets experienced severe pressure on sales and profits in 1971 as aggressive new competition endeavoured to establish in the province. Some stability is foreseen for 1972 and with new stores planned, we see an improved position ahead.

This cut lumber has had the ends sprayed with Cloverdale "end paint" for protection in rail and ocean shipping.



The above photograph illustrates the Ram River Gas Processing Plant constructed for the Aquitaine Company of Canada Limited by The Ralph M. Parsons Company Ltd., the prime contractor. Our Industrial Catering Division handled this project which involved in excess of 900 construction workers.

New products and recipes are professionally tested in the modern Nabob Test Kitchen at Lake City.

Geared totally for retail stores, our Foremost Foods Division offers a wide range of top quality dairy products. Included are some of the 27 different varieties of ice cream, 10 new flavours of yogurt and a variety of fluid milk products.

New additions to the fast-growing Super-Valu chain are part of our continuing growth pattern. This is an artist's conception of the exterior design of some of our proposed new stores.

One-stop shopping is becoming the rule, rather than the exception for today's customers. Super-Valu's new stores will be very large, capable of displaying thousands of diversified items and specialized services.

Bold new designs for Super-Valu and Nabob trucks create instant recognition and awareness as they move throughout the province.

KELLY, DOUGLAS & COMPANY, LIMITED and subsidiary companies
(Incorporated under the laws of British Columbia)

CONSOLIDATED BALANCE SHEET DECEMBER 25, 1971

ASSETS	December 25, **1971** (in thousands)	December 26, 1970 (in thousands)
Current:		
Cash	**$ 2,745**	$ 2,719
Accounts receivable	**10,291**	9,113
Inventories (note 2)	**25,920**	25,423
Prepaid expenses	**337**	588
Total current assets	**39,293**	37,843
Properties held for resale, at cost (note 3)	**3,649**	3,034
Fixed:		
Buildings, machinery and equipment, at cost	**34,493**	31,328
Less accumulated depreciation (note 4)	**17,971**	16,060
	16,522	15,268
Land, at cost	**1,361**	1,241
	17,883	16,509
Other:		
Deferred charges and accounts receivable	**1,132**	829
Sundry investments	**104**	103
Unamortized debenture discount	**44**	51
Excess of cost of shares of subsidiaries over the value of their net tangible assets at dates of acquisition (note 5)		1,034
	1,280	2,017
	$62,105	$59,403

ON BEHALF OF THE BOARD:
Victor F. MacLean, *Director*
C. M. Humphrys, *Director*

(See accompanying notes)

LIABILITIES AND SHAREHOLDERS' EQUITY	December 25, 1971 (in thousands)	December 26, 1970 (in thousands)
Current:		
Bank indebtedness (note 6)	**$ 1,110**	$ 6,110
Banker's acceptances	**9,500**	6,100
Accounts payable and accrued charges	**17,077**	14,403
Current portion of long-term debt	**722**	2,427
Income taxes payable	**938**	338
Total current liabilities	**29,347**	29,378
Long-term debt (note 6)	**6,532**	4,942
Deferred income taxes	**978**	994
Miniority interest in subsidiary companies		30
Share capital (note 7):		
Authorized —		
20,000 4½% cumulative redeemable preference shares par value of $100, redeemable at par		
2,000,000 cumulative participating Class "A" shares without par value		
3,000,000 Class "B" shares without par value		
Issued —		
1,050,107 Class "A" shares	**2,645**	2,645
1,576,992 Class "B" shares	**1,636**	1,636
	4,281	4,281
Retained earnings (note 8)	**20,967**	19,778
	25,248	24,059
	$62,105	$59,403

CONSOLIDATED STATEMENT OF INCOME
for the fiscal year ended December 25, 1971

	1971 (in thousands)	1970 (in thousands)
Sales	$249,194	$227,783
Income from operations before the following	$ 11,976	$ 9,881
Deduct:		
Depreciation (note 4)	2,421	2,107
Lease payments (note 9)	3,296	2,771
Interest — long-term debt	393	504
— other	653	831
Minority interest in losses of subsidiary companies	(7)	(32)
	6,756	6,181
Income before income taxes and extraordinary item	5,220	3,700
Income taxes	2,735	1,998
Income before extraordinary item	2,485	1,702
Extraordinary item:		
Exchange gain (net of $40,000 income taxes) arising from floating of the Canadian dollar		36
Net income	$ 2,485	$ 1,738
Earnings per Class "A" and "B" share:		
Income before extraordinary item	95¢	65¢
Net income	95¢	66¢

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
for the fiscal year ended December 25, 1971

	1971 (in thousands)	1970 (in thousands)
Retained earnings beginning of fiscal year	$ 19,778	$ 18,303
Net income	2,485	1,738
	22,263	20,041
Dividends on Class "A" shares (note 7)	262	263
Retroactive adjustment to reflect write-off of excess of cost of shares of subsidiaries acquired to December 26, 1970 over the value of their net tangible assets at dates of acquisition (note 5)	1,034	
	1,296	263
Retained earnings end of fiscal year (note 8)	$ 20,967	$ 19,778

(See accompanying notes)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 25, 1971

1. Account reclassification

Certain minor changes have been made in the 1970 comparative statements in order to conform the classification with that followed in 1971.

2. Inventories

Inventories consist of:	1971	1970
Finished goods, valued at the lower of cost and net realizable value	$22,071,000	$21,094,000
Raw materials, valued at the lower of cost and replacement cost	3,849,000	4,329,000
	$25,920,000	$25,423,000

3. Properties held for resale

It is the company's policy to assemble properties for future expansion. When the development of any location is completed, the property is sold under a lease-back arrangement.

4. Depreciation

Depreciation is provided on a straight-line basis over the estimated useful lives of assets at the following rates:

Buildings	2½% and 5%
Machinery and equipment	10% to 20%
Automotive	20%
Leasehold improvements	over life of lease

Maximum capital cost allowance is claimed for income tax purposes and appropriate provision is made for deferred income taxes.

5. Goodwill

The company has adopted the policy of other companies with which it is associated with respect to the treatment of the excess of cost of shares of subsidiaries over the fair value of net tangible assets at date of acquisition (goodwill). This has been accomplished in the following manner:

a) All excess in respect of subsidiaries acquired prior to the 1971 fiscal year has been written off by way of a retroactive charge to retained earnings.

b) Any such excess in respect of subsidiaries acquired after the end of the fiscal year will be amortized on a straight line basis over a maximum of twenty years by annual charges to income (in the case of one subsidiary acquired in 1971 there was no such excess requiring amortization).

6. Long-term debt

Long-term debt consists of:	1971	1970
6% sinking fund debentures, Series "A" maturing November 1, 1977; annual sinking fund instalment $100,000	$ 1,600,000	$ 1,700,000
Demand note payable bearing interest at prime rate plus 1% with scheduled quarterly repayments of $125,000	2,125,000	2,625,000
5½% notes payable maturing September 22, 1973 to June 15, 1974 (U.S. $2,063,000) (banker's acceptances)	2,127,000	
3% note payable, maturing January 1, 1971 (U.S. $1,689,650) (banker's acceptances)		1,711,000
Notes, mortgages and other	1,419,000	1,351,000
	7,271,000	7,387,000
Less:		
Debentures purchased for sinking fund purposes	17,000	18,000
Instalments due within one year	722,000	2,427,000
	739,000	2,445,000
	$ 6,532,000	$ 4,942,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

6. Long-term debt (cont'd)

Instalments on long-term debt due in each of the next five fiscal years are:

1972 — $ 722,000	1975 — $664,000
1973 — 1,174,000	1976 — 268,000
1974 — 2,360,000	

The greater part of consolidated accounts receivable and inventories is pledged as collateral security against bank indebtedness.

7. Share capital

The Class "A" shares entitle the holders thereof to fixed, cumulative, preferential cash dividends of 25¢ per share per annum payable quarterly. Any further dividends on the Class "A" and Class "B" shares shall be paid firstly to the Class "B" shareholders to the extent of 25¢ per share per annum plus the amount (if any) by which 25¢ exceeds their dividends in the preceding year, and thereafter in equal amounts per share to the Class "A" and Class "B" shareholders.

The Class "A" shares are non-voting except in the event of default in payment of six quarterly dividends.

The issued Class "B" shares as shown in the consolidated financial statements have been reduced by 41,133 shares held by a consolidated subsidiary and the paid up capital thereon by $41,133 the cost of the shares to the subsidiary.

8. Retained earnings	**1971**	1970
Appropriated as "capital surplus" on redemption of preference shares	**$ 774,000**	$ 774,000
Unappropriated	**20,193,000**	19,004,000
	$20,967,000	$19,778,000

9. Long-term leases

In addition to the buildings owned and occupied by the companies, manufacturing plants, distribution centres and retail stores are occupied under lease agreements, the majority on a long-term basis (in excess of five years). Also, long-term leases have been entered into on additional stores which are sub-leased to independent operators and other lessees.

As at December 25, 1971 the rentals under long-term lease agreements are payable as follows:

For the five years ending December 31, 1976	$15,442,000
For the five years ending December 31, 1981	13,899,000
For the five years ending December 31, 1986	12,315,000
For the five years ending December 31, 1991	9,651,000
For the five years ending December 31, 1996	4,400,000
Subsequent to December 31, 1996	144,000
	$55,851,000

10. Directors' remuneration

During the fifty-two weeks ended December 25, 1971 aggregate remuneration of directors amounted to $210,000 (1970 — $208,000).

11. Commitments and contingent liabilities

Contractual commitments for capital additions amounted to $950,000 and contingent liabilities consisted of guarantees in the amount of $107,000 as at December 25, 1971.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS
for the fiscal year ended December 25, 1971

	1971 (in thousands)	1970 (in thousands)
Source:		
Operations —		
Net income	**$2,485**	$1,738
Charges (credits) not resulting in an outlay (receipt) of funds:		
Depreciation	**2,421**	2,107
Deferred income taxes	**(16)**	276
Net (gain) loss on disposal of fixed assets	**(59)**	63
Gain on disposal of properties held for resale	**(82)**	(31)
Amortization of debenture discount	**7**	7
Minority interest in losses of subsidiary companies	**(7)**	(32)
	4,749	4,128
Proceeds from disposal of fixed assets	**556**	742
Proceeds from properties sold for leaseback	**997**	2,493
Proceeds from issue of long-term debt	**2,387**	1,312
Capital contributions attributable to minority interests		34
	8,689	8,709
Application:		
Increase in deferred charges and accounts receivable	**307**	3
Retirement of long-term debt	**797**	4,033
Purchase of properties held for resale	**1,804**	1,441
Purchase of fixed assets	**4,014**	3,762
Purchase of sundry investments	**1**	44
Excess of cost of shares of subsidiaries acquired during the year over the value of their net tangible assets (note 5)		118
Purchase of minority shareholders' interest in subsidiary	**23**	
Dividends on Class "A" shares	**262**	263
	7,208	9,664
Increase (decrease) in working capital	**1,481**	(955)
Working capital beginning of fiscal year	**8,465**	9,420
Working capital end of fiscal year	**$9,946**	$8,465

(See accompanying notes)

AUDITORS' REPORT

To the Shareholders of
Kelly, Douglas & Company, Limited:

We have examined the consolidated balance sheet of Kelly, Douglas & Company, Limited and its subsidiary companies as at December 25, 1971 and the consolidated statements of income, retained earnings and source and application of funds for the fiscal year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 25, 1971 and the results of their operations and the source and application of their funds for the fiscal year then ended, in accordance with generally accepted accounting principles. These principles, except for the change in accounting for goodwill (which we approve) referred to in note 5, have been applied on a basis consistent with that of the preceding fiscal year.

Vancouver, Canada
February 11, 1972.

Clarkson, Gordon & Co.
Chartered Accountants

10 YEAR HISTORICAL SUMMARY

FINANCIAL RATIO AND VALUES (thousands of dollars)

Fiscal Year	Current Ratio	Sales to Av. Inventory	A/C Receive. (Av.)—Days	Working Capital	Net Property & Equipment	Total Assets	Shareholders' Investment Total	Shareholders' Investment $ Per Share	Shareholders' Investment Increase
1971* (full year)	1.34-1	9.7	14	$9,946	$17,883	$62,105	$25,248	$9.61	4.9%
1970 " "	1.29-1	9.3	15	8,465	16,509	59,403	24,059	9.16	6.5
1969 " "	1.41-1	9.7	14	9,420	15,572	53,833	22,584	8.60	6.3
1968 (39 weeks)	1.44-1	10.5	14	8,866	13,923	47,823	21,252	8.09	6.6
1968 (43 weeks)	1.40-1	10.8	14	7,339	11,949	41,175	19,946	7.59	7.8
1967 (full year)	1.31-1	11.2	14	6,537	11,750	39,598	18,501	7.04	9.3
1966 " "	1.47-1	11.2	14	6,964	10,319	35,187	16,930	6.44	6.6
1965 " "	1.67-1	10.0	13	7,441	8,296	28,848	14,729	6.04	7.6
1964 " "	1.71-1	10.6	12	7,276	7,786	27,423	13,674	5.61	6.6
1963 " "	1.48-1	10.1	13	5,636	8,609	28,189	12,815	5.26	5.6
*Effect of goodwill write off						(1,034)	(1,034)	(.39)	(4.3)

OPERATING (thousands of dollars)

Fiscal Year	Net Sales	Operating Income	*Rental Payments	Debenture Interest	Depreciation Provided	Income Taxes	Net Income	Shareholders' Cash Flow
1971 (full year)	$249,194	$11,111	$3,375	$ 99	$2,417	$2,735	$2,485	$4,749
1970 " "	227,783	8,716	2,771	102	2,107	1,998	1,738	4,128
1969 " "	211,660	7,656	2,445	111	2,003	1,503	1,594	3,260
1968 (39 weeks)	150,828	6,063	1,511	83	1,348	1,618	1,503	2,895
1968 (43 weeks)	153,965	5,790	1,577	97	1,433	1,325	1,358	2,704
1967 (full year)	173,522	7,202	1,767	126	1,605	1,871	1,833	3,749
1966 " "	154,424	6,148	1,552	130	1,288	1,630	1,548	3,161
1965 " "	130,418	5,205	1,392	138	1,061	1,348	1,266	2,414
1964 " "	119,281	4,624	1,308	145	1,013	1,085	1,073	2,128
1963 " "	113,049	3,982	1,135	150	963	830	904	1,972

**Including Stores Subleased to Independent Operators.*

OPERATING RATIOS AND VALUES

Fiscal Year	Operating Margin	*Rent & Debenture Interest Coverage	Net Margin	Return on Average Equity	Earnings Per Share	Increase	Cash Flow Per Share	Dividends Per Class "A" Share
1971 (full year)	4.46%	3.20	1.00%	10.07%	$.95	43.9%	$1.81	$.25
1970 " "	3.82	3.03	.76	7.45	.66	8.2	1.58	.25
1969 " "	3.61	3.46	.75	7.27	.61	7.0	1.24	.25
1968 (39 weeks)	4.02	3.80	1.00	9.73	.57	9.6	1.10	.19
1968 (43 weeks)	3.76	3.46	.88	8.54	.52	(10.0)	1.03	.19
1967 (full year)	4.15	3.80	1.05	10.35	.70	18.6	1.43	.25
1966 " "	3.98	3.65	1.00	9.78	.59	13.5	1.20	.25
1965 " "	3.99	3.40	.97	8.91	.52	18.1	.99	.25
1964 " "	3.88	3.18	.90	8.10	.44	18.9	.87	.25
1963 " "	3.52	3.10	.80	7.25	.37	(13.9)	.81	.25

**Including Stores Subleased to Independent Operators.*

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KELLY, DOUGLAS & COMPANY, LIMITED

Interim Report for
24 week period ending
June 12, 1971

KELLY, DOUGLAS & COMPANY, LIMITED

We are pleased to report that for the 24 week period ended June 12, 1971, your Company's sales continued their upward trend and totalled $107,048,000, an increase of 4.18 per cent from the comparable period last year.

Our net profit amounted to $724,000 after taxes. This is 11.16% less than the comparable 1970 period and reflects the many difficulties we faced in the first quarter of this year. Sales and earnings began to accelerate upwards in our second quarter and all divisions are showing encouraging gains.

The revival of confidence in the general economy, especially noticeable in the upsurge of activity in British Columbia's construction industry, indicates favourable progress for the months ahead. A beneficiary of this is our catering division which reversed its downward trend in the early part of the year and is enjoying a healthy resurgence in sales and profits.

Your Company will also benefit from the fact that all major labour agreements have been settled for approximately two years. The retail, wholesale, dairy, catering, paint and manufacturing divisions are all projecting satisfactory results. We anticipate a modest improvement in earnings for the balance of the year.

VICTOR F. MacLEAN,

Victor MacLean

President.

August 17, 1971.

CONSOLIDATED FINANCIAL STATEMENTS
24 Weeks Ended June 12, 1971
(unaudited)

	1971	1970
	(in thousands of dollars)	
PROFIT		
Sale of products and services	$107,048	$102,745
Profit from operations before the following	4,230	4,126
Deduct:		
Depreciation	1,080	942
Payments on long-term leases	1,254	1,086
Interest—Long-term debt	179	225
—Other	322	355
	2,835	2,608
Profit before income taxes	1,395	1,518
Income taxes	701	807
Net profit before minority interest	694	711
Minority interest in losses of subsidiary companies	30	28
Net profit from operations	724	739
Extraordinary profit on revaluation of Canadian dollar	—	76
Net profit for the period	$ 724	$ 815
Per Common Share		
Net profit from operations	$ .28	$ .28
Net Profit	$ .28	$ .31
Net Margin	.68%	.79%

SOURCE AND APPLICATION OF FUNDS

	1971	1970
SOURCE OF FUNDS		
Net profit for the period	$ 724	$ 815
Depreciation	1,080	942
Proceeds on issue of long-term debt	581	885
	2,385	2,642
APPLICATION OF FUNDS		
Retirement of long-term debt	501	3,617
Dividends paid	131	131
Net increase in properties held for resale	423	603
Net additions to Fixed Assets	727	1,204
Net changes in Deferred Accounts	356	(11)
	2,138	5,544
Increase in Working Capital	247	(2,902)
Working Capital at beginning of period	8,465	9,422
Working Capital at end of period	$ 8,712	$ 6,520

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